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IN THE

Supreme Court of the United States

October Term, 1966
No. 179

ATLAS SCRAPER AND ENGINEERING CO., a Corporation,
Petitioner,

vs.

HARRY A. PURSCHE, an Individual,
Respondent.

Petition for Rehearing for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

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Petition for Rehearing for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

Petitioner prays that this Court grant a rehearing of its Order of October 10, 1966 .... U.S. ...., ... L. Ed. 2d ...., denying the Petition for Writ of Certiorari, and that a Writ of Certiorari issue to review the Judgment of the United States Court of Appeals for the Ninth Circuit in the above-entitled case as prayed for in the original Petition filed on May 27, 1966 herein (No. 1361, October Term, 1965.)

Grounds for Rehearing of Petition for Certiorari.

This Petition for Rehearing is filed under this Court's Rule 58, Paragraph 2, and presents a ground of an intervening circumstance of substantial and controlling effect and grounds available to Petitioner although not previously presented.

The intervening circumstance on which this Petition for Rehearing is predicated is the conflicting October 11, 1966 decision of the United States Court of Appeals for the Sixth Circuit in *Rocform Corporation v. Acitelli-Standard Concrete Wall, Inc.*, ... F. 2d ...., 151 U.S.P.Q. 305.

The *Rocform* decision is in conflict in principle with the decisions of the Courts below in this case in that it holds, in effect, that a patent owner is misusing his patent when it is used as leverage in a license agreement so that he, the licensor, will receive benefits from the licensed patent after it has expired. The benefits in *Rocform* are in the form of royalties and here are in the form of separate monopolies which can produce royalties. The result of the illegal license agreements is the same in both situations. The *Rocform* decision follows *Brulotte et al. v. Thys Company,* 379 U.S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1964), in principle.

Revised Question Presented.

Is a clause in a patent license requiring the licensee and all sub-licensees to grant-back by assignment to the licensor all future attachments, modifications and betterments, whether patentable or not, relating directly or indirectly to the device covered by the licensed patent, and not being infringements of the licensed patent, an effort to continue to effectively receive consideration for and have benefits of the licensed patent from the licensee, all sub-licensees and from the public at large for an indefinite period which extends after the licensed patent has expired and hence, unlawul *per se* and a misuse of the licensed patent so as to make it unenforceable?

Statement of the Case.

The following is in addition to the "Statement of the Case" as set forth starting on page 4 of the original Petition (October Term, 1965, No. 1361).

Paragraph IX of the license (App. to original Pet. p. 119a) required the licensee and the sub-licensees to assign back to the Respondent-licensor all modifications, attachments, and betterments relating directly or indirectly to the plow construction forming the subject matter (the licensed patent) of the agreement, whether patentable or not. Such modifications, attachments, and betterments are not "improvements" in the legal sense and, therefore, are not infringements of the licensed patent. This resulted in the acquisition of additional patents by Respondent and which gave him consideration and benefits of the licensed patent after the license had been terminated and had been designed to be an effort to continue to effectively create benefits and consideration for the licensor from the licensee, all sub-licensees and from *the public at large* for an indefinite period which would extend after the licensed patent had expired.

Although the licensee and sub-licensees had the right to use any attachments, modifications, betterments and/or patentable inventions without the payment of additional royalties, the license agreement put the licensor in the position of being able to collect royalties long after the licensed patent expired on any of the patentable inventions made by the licensee and sub-licensees. Thus, the licensor was in a position to receive benefits from his licensed patent both after the license terminated and after his licensed patent expired, the licensor having title to all of the inventions conceived and developed by the licensee and sub-licensees.

By this license agreement the licensor had what amounted to a *reverse* package-type license; that is, the more the licensee and sub-licensees created, the more patents, and other developments, such as trade secrets, had to be assigned to him so that his package of patents was designed to be an ever increasing one.

Reasons for Rehearing and for Granting the Writ.

Under such a grant-back clause there is no encouragement for licensees and sub-licensees to make improvements, invent or develop new concepts, and it thereby lessens creativity and competition. All of the real benefit that would come from such developments would, from the nature of the grant-back clause, go to the licensor in that he was to receive title to them, and it was the Courts below which granted him title to Petitioner's inventions.

The resulting patents thereby acquired by Respondent put him in a position to keep off the market competitive plows not covered by his patents. The public, whose interest is paramount, was thus deprived of competitive equipment by Respondent's shelving of patents for his own selfish interests.

The only justification for a grant-back clause is to protect a patentee's legitimate interest under his patent. The grant-back clause in the license agreement involved herein went far beyond this. The grant-back provision did not merely protect Respondent's market for his plow within the legal monopoly of his patents, but enabled Respondent to acquire title to independent inventions which are not within the claims of Respondent's patent and which are separate monopolies which extend

beyond the date of expiration of Respondent's patents. The enforcement of the agreement by the Courts below constitutes a means by which Respondent can stop other manufacturers from making plows which do not infringe his own patents.

This is the very evil, in regard to improvements, that this Court specifically referred to *Transparent-Wrap Machine Corp. v. Stokes & Smith*, 329 U.S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947), where it said:

> *"Third. We are quite aware of the possibilities of abuse in the practice of licensing a patent on condition that the licensee assign all improvement patents to the licensor.* Conceivably the device could be employed with the purpose or effect of violating the anti-trust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. *Competitors might be eliminated and an industrial monopoly perfected and maintained.* * * *" (Emphasis added.) (329 U.S. at pp. 646, 647.)

Under the present grant-back clause, the evil is obviously greater in that every new attachment, modification, betterment or concept had to be assigned to the licensor. This Court in the *Trans-Wrap* case was referring only to improvements to licensed patents and not to remote inventions which when patented were bound to create additional separate monopolies to extend for an indefinite time beyond the date of expiration of the licensed patents. All of the cases cited by Petitioner in its Petition and Reply Brief in support

of Petition for Writ of Certiorari, relative to the extension of the patent monopoly, stand for principles which indicate that it is misuse of a patent to attempt to extend its life or scope, or both, the latter having been, in effect, accomplished by the grant-back clause here.

Here, the *life* of the patent is extended in principle by the requirement for the assignment back of improvements or other developments which provide effective benefits to the licensor after the expiration of his patent. There is no difference in principle between the receipt of royalties after the expiration of a patent, held to be misuse in the *Brulotte* and *Rocform* cases, *supra*, and the receipt of patents, as here, designed to be effective to produce royalties after the expiration of a licensed patent.

The *scope* of the licensor's patent is extended in principle here by the requirement for the assignment back of developments which are not infringements of the licensor's patents. There is little or no difference in principle between extending the scope of a patent for a machine by the requirement to use only the patent owner's salt tablets in his licensed machines, *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, and the requirement that a patent owner, as here, be granted patents, inventions, and developments, whether patentable or not, under a license, and which extend far beyond the scope of the licensed patent; that is, they are non-infringements. In the *Morton Salt* case, the sale of unpatented salt tablets was an illegal extension of scope and here, the granting of title to the patent owner in inventions not within the scope of the licensed patent is the illegal extension. The principle in question is

applicable not only to the enlargment of the patent monopoly for the exploitation of an unpatented article, but is equally applicable to the enlargement for the exploitation of the monopoly of another patent, *Ethyl Gasoline Corporation et al. v. United States*, 309 U.S. 436, 459 (1940).

The latest decision in conflict with the decisions here below, permitting, in effect, the extension of the life and scope of Respondent's licensed patent, is that in *Rocform Corporation v. Acitelli-Standard Concrete Wall, Inc.* (C.A. 6, 1966), ... F. 2d ....., 151 U.S.P.Q. 305. In that case, the Court was faced with a "package" patent license. The single patent placed in issue in infringement litigation was the most important patent in the package and will expire at an early date, namely, October 17, 1967, whereas the patents of lesser importance in the package were of longer duration.

The majority (There was one dissent.) in *Rocform* stated the misuse question as follows:

> "The District Judge also pointed out that the patent in suit had an early termination date (October 7, 1967), but the Rocform standard license agreement provided no reduction of license fees or termination date (except with penalties on the licensee's default). (P. 306.)
>
> * * *
>
> "In the recent case of Brulotte v. Thys Co. the Supreme Court said:
>
> 'A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the mo-

nopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones. See Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 44 USPQ 614; Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 664-665, 60 USPQ 21, 24, and cases cited.' Brulotte v. Thys Co., 379 U.S. 29, 33, 143 USPQ 264, 266 (1964).

* * *

"We believe that the District Judge was correct in viewing this licensing agreement as an illegal attempt to extend the patent in suit. It contains no termination clause running to the benefit of the licensee. See 3A Corbin, Contracts § 761 (1960). After the expiration of the patent in suit, Rocform's licensees would continue to pay the same fees as are provided during the life of the crucial patent. (P. 307.)

* * *

"We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent. Brulotte v. Thys Co., supra; American Securit Co. v. Shatterproof Glass Corp., supra." (P. 308.)

The grant-back clause in the present license presents an analogous misuse. Whereas here Petitioner-licensee was not required to pay royalties after the termination of the agreement or after the expiration of the licensed patent, Petitioner and its sub-licensees were required

to assign benefits and consideration in the form of title to any invention, attachment, improvement, modification or betterment relating directly or indirectly to the plow construction, forming the subject matter of the agreement and made during the life of the agreement by Petitioner or its sub-licensees, and whether patentable or not. All of the patented inventions or patents so assigned will expire after the licensed patent and be of substantial benefit to the licensor, and at the cost of the public. Such an arrangement is to the detriment of the public in that it does not encourage the licensee and sub-licensees to make improvements or other developments from which they would get little and from which the licensor would expect to reap much. The enforcement of the present license agreement by the Courts below has given Respondent these aforesaid illegal benefits. In contrast to the decisions in this case, the Court in *Rocform* stated:

> "'If defendant's hands be unclean in that it made no bona fide application to plaintiff for licensing, or for any other reason indicated by the facts in this case, such uncleanliness will not render plaintiff's hands clean if it is attempting to unlawfully extend its patent monopoly.'
>
> * * *
>
> "In Morton Salt (314 U.S. 488, 492) the United States Supreme Court said:
>
> 'It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest. Virginia Ry. Co. v. Federation, 300 U.S.

515, 552; Central Kentucky Co. v. Railroad Commission, 290 U.S. 264, 270-73; Harrisonville v. Dickey Clay Co., 289 U.S 334, 337-38; Beasley v. Texas & Pacific Ry. Co., 191 U.S. 492, 497; Securities & Exchange Comm'n v. U.S. Realty Co., 310 U.S. 434, 455; United States v. Morgan, 307 U.S. 183, 194.' * * *" (P. 308.)

Here, also this Court of equity should withhold its aid to the Respondent who has used his patent right contrary to the public interest. The payment of royalties beyond the life of a patent is a direct extension of its life and the requirements of the grant-back clause here at least produce an indirect extension of the life of the licensed patent. What cannot be done directly, cannot be done indirectly.

Conclusion.

Whereas there have been many decisions setting forth law that it is misuse for a patentee to attempt to extend the life or scope of his patent and that such misuse renders the patent unenforceable, there has been no case, known to Petitioner, which has specifically answered the question presented here. It is obvious that this question should be decided for the benefit of patentees, licensees and the public. The Supreme Court by its decisions has laid down the law and guide lines on most of the devices employed by patentees to extend their patent monopolies to unpatented goods and activities; however, there appears to be this one gap that should be plugged.

Petitioner respectfully submits that the doctrine of the *Morton Salt* case and the *Brulotte* case do make the grant-clause here illegal and a misuse of the licensed patent; however, there is a dire need for the Supreme Court to further define the scope of these important misuse cases and related cases so that Trial and Appellate Courts, the members of Bar, and the public will have definite and exact instructions with respect to the type of grant-back clause involved in the present Petition.

The type of patent license involved in this present litigation implements and enables an abuse of the patent monopoly which is just as serious and is just as far reaching as that in the *Morton Salt* case and *Brulotte* case, and as well as many of the other cases reviewed by this Court. It seems safe to say that this type of patent misuse will continue until this Court makes an announcement of the law with respect to this type of agreement and this type of misuse.

The legitimate interests of a patentee-licensor should be considered and stated by this Court. It would seem that this interest would generally be satisfied by a non-exclusive grant-back license. Where the licensor has licensed his patents to third parties, he would also need the right to grant sub-licenses in order to protect his potential income under the original licensed patents and provide freedom for his licensees to operate under such improvement patents. This type of grant-back clause, however, should include only actual improvements in the legal sense and which are infringements of the orig-

inal licensed patents. There should never be an agreement in which a grant-back clause absolutely requires the licensee and sub-licensees to grant-back title to everything that they may develop. Such a clause clearly can only have the result of extending the life and scope of the original licensed patents. This situation and the revised question presented here is remote from the question decided in the *Trans-Wrap* case, *supra.*

Respectfully submitted,

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Certificate of Counsel.

I hereby certify that the foregoing petition for rehearing is presented in good faith and not for delay and is restricted to grounds in Rule 58 of the rules of this Court.

Respectfully submitted,

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